California Energy Commission

NATURAL GAS UPDATE

September 2004

Natural Gas Prices ($/MMBtu)

Average Price	August 2004	July 2004	August 2003
PG&E, Malin	5.22	5.52	4.26
PG&E, SoCal Border	5.33	5.65	4.55
SoCalGas Average	5.38	5.74	4.55
Henry Hub, Lousiana	5.45	5.93	4.93

Source: Natural Gas Intelligence

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This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

California Air Resources Board
California Energy Commission
California Public Utilities Commission
California State Lands Commission
Department of Conservation, Division of Oil, Gas, & Geothermal Resources
Department of General Services
Department of Water Resources

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Natural Gas Prices

Natural gas spot market prices started a steady march downward during August 2004, particularly at the California border. The price decline came despite California's record-high electricity demand during the second week of the month. The increase in electricity load did not push natural gas prices upward, as was the case in July, and brief withdrawals from storage ameliorated any strain on the natural gas system (see Figures 2 & 3 on page 2), combined with below average demand outside the state, suppressed natural gas spot prices.

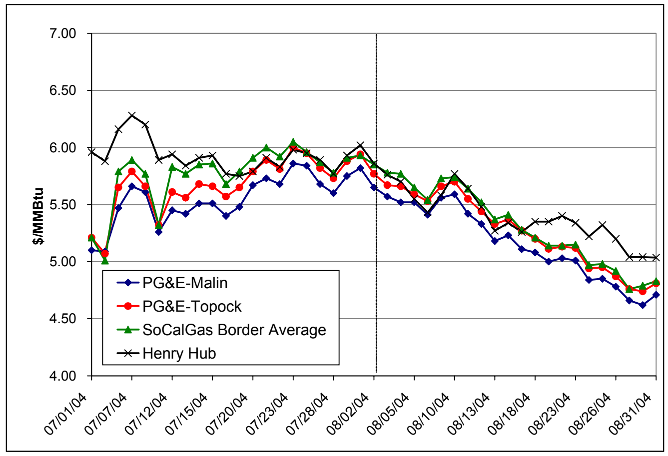

Figure 1: Daily Natural Gas Spot Prices

August's only hiccup, in terms of natural gas prices at the California border, occurred late in the second week of the month as tropical storm activity in the Gulf of Mexico

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California System Operations and Gas Storage Update

During August 2004, PG&E's deliveries of natural gas averaged 2.5 Bcf per day, about the same as the average over the previous three years during August. PG&E's daily receipts of natural gas into its system, however, averaged 2.8 Bcf per day, about six percent greater than the three year average for August. (see Figure 3, page 2) During that time, PG&E used, on average, 82 percent of its pipeline receipt capacity.

The natural gas supply and demand picture in Southern California differed slightly during the month of August 2004. Natural gas receipts into the SoCalGas system averaged 2.9 Bcf per day, slightly below the three year average of 3.0 Bcf per day. SoCalGas' average pipeline receipt capacity utilization during the month was 75 percent. During August, natural gas demand in Southern California was nearly ten percent below the three year average, averaging 2.6 Bcf per day. (see Figure 2, page 2)

The above average receipts of natural gas into the PG&E system and the below average demand in Southern California allowed California storage customers to make net injections to storage during August 2004, a month that typically yields little change to storage inventories (during the previous five years averaged net withdrawals of 0.19 Bcf during August). Contrary to historical patterns, inventories increased by 17.6 Bcf during the month, the heaviest injections on record during the month of August, both in terms of volume and as a percentage of total storage

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Natural Gas Prices

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caused natural gas prices to increase slightly nationwide. The brief up-tick in spot prices was tempered by moderate temperatures in California through the remainder of August, and to a larger degree, a lack of significant cooling load throughout much of the rest of the U.S. during August 2004.

Nationally, natural gas spot market prices also decreased during much of August 2004. Many consumption regions, including the Northeast, Midwest, and Pacific Northwest, experienced periods when temperatures were in the 60-70 degree range.

During the second week of August, Tropical Storm Bonnie and Hurricane Charley clipped the natural gas producing regions of the Gulf of Mexico, halting production at a small number of drilling rigs and platforms that were forced to evacuate until the storms passed. The shut-ins proved insignificant, affecting less than one-tenth of one percent of annual Gulf of Mexico production, and the upward pressure on natural gas prices was short-lived. The two storms did, however, dampen natural gas demand for electricity generation, particularly in Florida and the East Coast, further easing the pressure on natural gas spot market prices.

One surprising development in August 2004 was the apparent decoupling of NYMEX crude oil and natural gas futures. During the month, crude oil prices reached record highs on the NYMEX, at times, approaching $50 per barrel. In recent months, increases in the price of the crude oil contract weighed heavily on natural gas futures prices, and spot prices generally followed close behind. During August 2004, however, the linkage between crude oil and natural gas futures was minimal, and natural gas prices managed to decline despite the strong advances in crude oil prices. ◘

California System Operations and Gas Storage Update

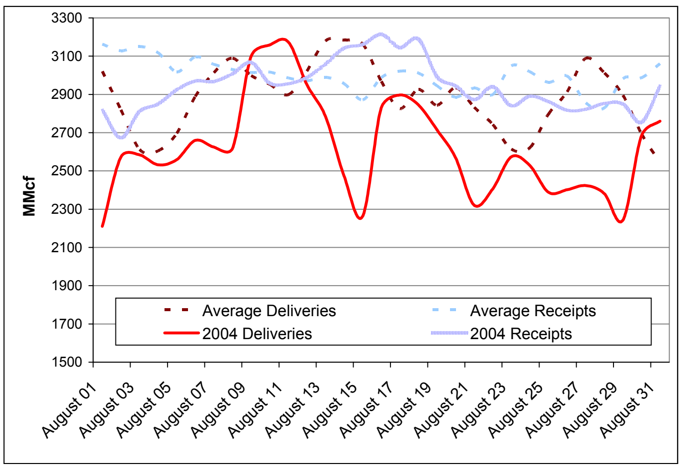

Figure 2. SoCalGas' Natural Gas Receipts and Deliveries, August 2004

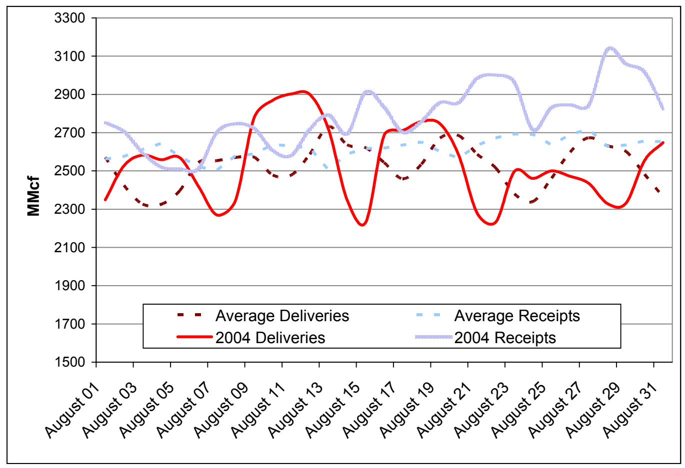

Figure 3. PG&E's Natural Gas Receipts and Deliveries, August 2004

System Operations

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capacity. The only statewide net withdrawals during August occurred from August 9 through August 11, which coincided with record setting electricity demand. The large net injections for the month, which nearly tripled the amount injected during July 2004, brought the statewide inventory to 225 Bcf, as of September 1, 2004. (see Figure 4) ◘

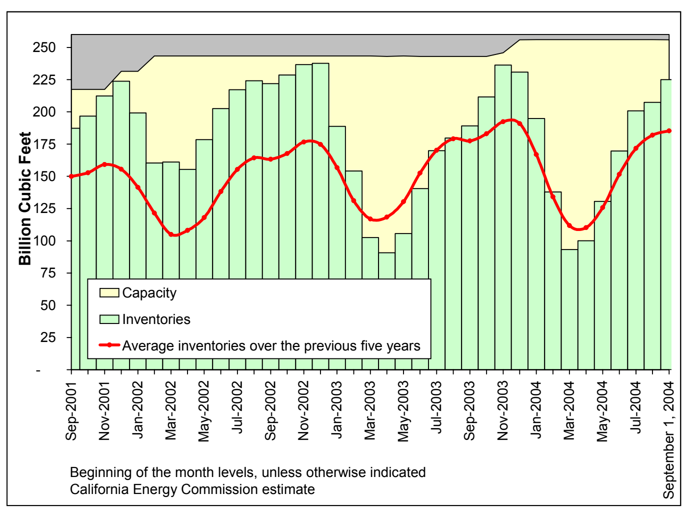

Figure 4. Monthly California Storage Inventories

U.S. Natural Gas Storage

During August 2003, around 395 Bcf of natural gas was injected into storage nationwide, bringing total U.S. inventories to 2,775 Bcf as of September 3, 2004. By comparison, at the same time last year, inventories were 2,518 Bcf, and the five-year average is 2,592 Bcf.◘

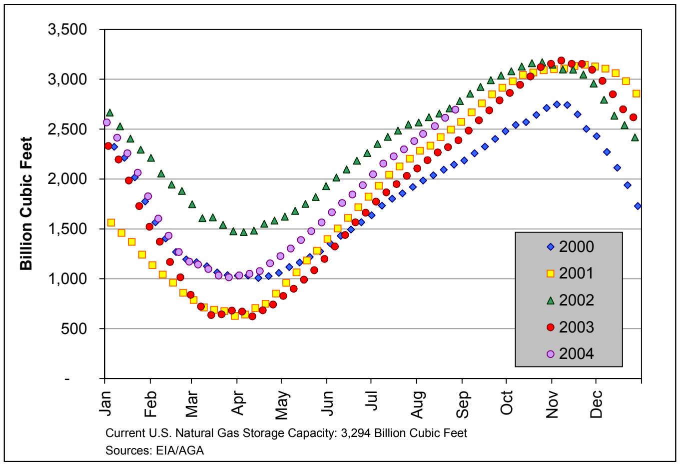

Figure 5. U.S. Natural Gas Storage Levels

California Gas Drilling and Production

California natural gas production increased during June 2004, with statewide daily production increasing 27 MMcf per day to around 924 MMcf per day. The largest increase came from federal off-shore production, which increased 18 MMcf per day. Natural gas production in Northern California (District 6), which accounts for the majority of non-associated gas production in the state, continued its recent decline. During June 2004, District 6 production dropped for the forth consecutive month. The nearly 6 MMcf per day decrease brought District 6 production down to around 184 MMcf per day, the lowest daily production level in six years. Prior to District 6's four month skid, production had averaged around 208 MMcf per day.

During August 2004, 21 natural gas drilling permits were issued for District 6, bringing the year-to-date total to 89 permits issued, slightly higher than total permits issued through August during 2000, 2002, and 2003. District 6 produces the largest volume of non-associated natural gas in California. The district encompasses all of Northern California north of Santa Cruz, Santa Clara, Stanislaus, Tuolumne, and Mono counties, as well as a small portion of Stanislaus County. ◘

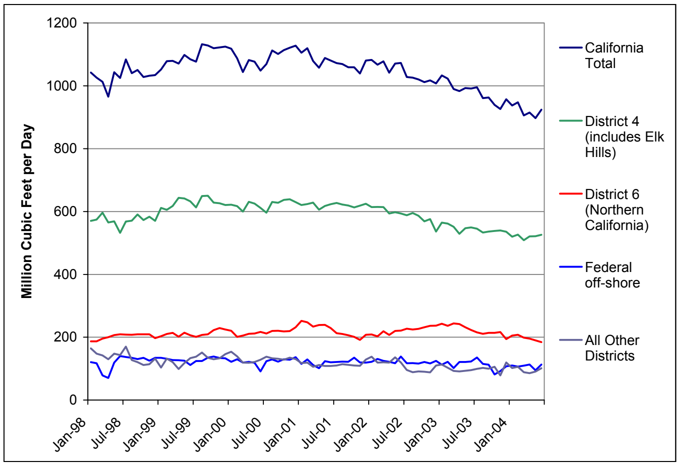

Figure 6. California Natural Gas Production, by District

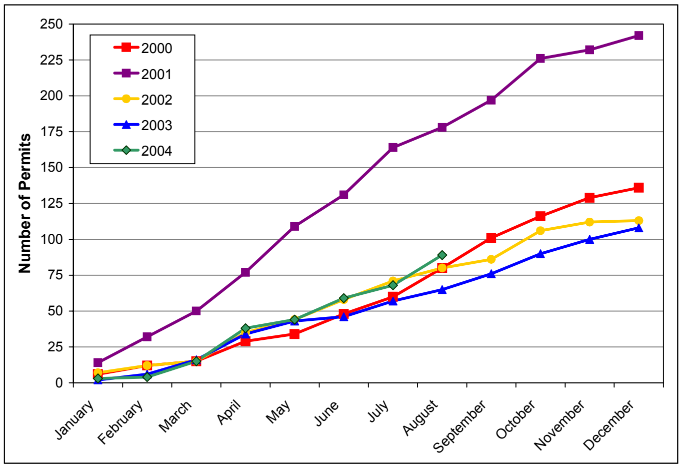

Figure 7. Drilling Permits Issued for District 6 (Northern California)

Regulatory Summary

California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status (Italics indicate change from previous month)
I0211040 Investigation on Natural Gas Prices from December 2000 to May 2001	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	Phase 1A hearings have been completed, briefs were due August 13, 2004 and reply briefs were due September 10, 2004
I0404024 Order Instituting Investigation into the proposal of Sound Energy Solutions to construct and operate a liquefied natural gas terminal at the Port of Long Beach	*Orders Sound Energy Solutions (SES) to file an application for a Certificate of Public Convenience and Necessity (CPCN) if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.*	The Prehearing Conference scheduled was held on August 23, 2004 in Long Beach. The ALJ will issue a scoping memo.
A0403021 2005 Gas Accord II	*PG&E's proposal for cost of service and rates for gas transmission and storage services and backbone level service and rates for 2005, as required by Commission decision D03-12-061 (Gas Accord II).*	*At an August 2, 2004 prehearing conference, PG&E informed the Commission that it reached an all-party settlement in the proceeding that would settle backbone transmission and storage rates and market structure for 2005-2007. PG&E filed the settlement on August 27, 2004. If adopted by the Commission, the settlement would eliminate the need for a 2006 Gas Accord filing.*
Xxxxxxxx 2006 Gas Accord	*PG&E's proposal for market structure and rates under which its gas transmission and storage system will operate beginning January 1, 2006, and how long the rates in such a structure should remain in place.*	
R0401025 Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California	Considers and rules on California natural gas utilities' proposals to ensure reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 2 comments and reply comments have been submitted. A Phase 1 Proposed Decision was mailed on July 20, 2004. Comments on the PD were filed on August 9, 2004. The Commission issued the Phase I decision on September 2, 2004.
PG&E BCAP Application 04-07-044	Allocates transmission and distribution costs among the utilities' customers.	Filed on July 30, 2004. The Prehearing Conference will be held on September 16, 2004.